

EX-IM BANK MEDIUM-TERM EXPORT CREDIT INSURANCE

SUMMARY

Exporters and Financial Institutions supporting the sale of U.S. capital equipment, its installation and a complement of spare parts if necessary, can insure their foreign receivables against losses with Ex-Im Bank medium-term policies.

Ex-Im Bank medium-term policies protect U.S. sales to a single foreign buyer against the buyer's failure to pay an obligation because of unforeseen commercial or political reasons. The policies can often help U.S. exporters obtain financing and, therefore, compete in selling overseas through the use of prudent credit extension practices. Also see Ex-Im Bank's Fact Sheet on the Medium Term Bank-to-Bank Credit Line Export Credit Insurance Policy, form EIB99-10.

There is no requirement to insure all sales under the medium-term policies since each policy covers transactions with one particular buyer for single or repetitive sales.

POLICY FORMAT

Policies will be issued in one of two formats:

1. A **"Documentary"** policy will be issued to financial institutions wherein the insured bank will be required to obtain specific documents (signed buyer obligation, transport documents, invoice and Exporter Certificate, form EIB94-07) which evidence conformity with the policy requirements. If the beneficiary of the funding is other than the exporter, a Beneficiary Certificate, form EIB92-37, is required as well. The insured financial institution is protected against fraud, disputes and other defects of the underlying transaction. The documentary policy is available for both single sale and buyer specific repetitive sales transactions.
2. A **"Non-Documentary"** policy will be issued to exporters. This policy is assignable to financial institutions and a documentary assignment will be made available to provide the same protection to the assignee financial institution as the documentary policy. The non-documentary policy will be available to accommodate both single sale and repetitive sales transactions.

Both formats require the use of an Ex-Im Bank Promissory Note form or an endorsement allowing the use of a different note form. Ex-Im Bank has special promissory notes for Mexico, form EIB92-59, and Venezuela, form EIB97-9, as well as standard notes, form EIB92-58.

WHAT IS COVERED

The maximum cover available under medium-term policies is \$10 million. All cover is subject to Ex-Im Bank foreign content guidelines. Ex-Im Bank's medium-term policies cover **two types of losses**:

1. **Commercial losses** resulting from nonpayment for such reasons as a buyer's insolvency or failure to pay an obligation within six months of the due date.
2. **Political losses** from certain specifically defined risks, such as war, revolution, cancellation of import or export licenses, and currency inconvertibility.

Ex-Im Bank indemnifies an insured for 100 percent of the financed portion in the event of a commercial loss or political loss.

Ex-Im Bank's medium-term policies cover credit sales in which payment terms range between one and five years (exceptionally 7 years) after the goods arrive at the port of importation. Policies are available to accommodate two types of transactions:

1. *single sales* - one-time transactions; and
2. *repetitive sales* - ongoing relationships, generally between an exporter and a dealer or distributor.

All of the medium-term policies require that the insured obtain a cash down payment from the buyer in an amount equal to at least 15 percent of the contract price prior to delivery. The remaining financed portion is then insured at 100 percent. The buyer's obligation to pay the financed portion must be evidenced by a promissory note. The financed portion must be payable in at least semiannual equal installments of principal and interest.

SINGLE-SALE, SINGLE SHIPMENT POLICY

The applicant submits an application, form EIB92-48. If the application is approved, Ex-Im Bank issues a commitment notice stating the parameters under which it would be willing to issue coverage. Those parameters include Ex-Im Bank's limit of liability, the amount of the contract price, the down payment and the financed portion, the payment terms, the premium amount, the final shipment date, and any special conditions required. The policy will be issued upon receipt of the quoted premium amount.

Although the Single-Sale Policy covers only one specific transaction with a particular buyer, more than one shipment can be made to complete the transaction.

SINGLE SALE, MULTIPLE SHIPMENT AND REPETITIVE SALES POLICIES

The applicant submits the same application for coverage on a series of shipments or sales with a particular buyer. In place of a commitment notice, Ex-Im Bank issues a policy with a transaction endorsement stating the parameters of coverage.

Following shipments, the insured submits a shipment report form, EIB92-29 for exporters, EIB92-30 for financial institutions, stating shipments made during the month and accompanied by the appropriate premium check.

ELIGIBLE REPAYMENT TERMS

The length of payment terms available under Ex-Im Bank medium-term policies depends on the total value of sales and, to some extent, upon the unit value of capital goods. The following table shows the maximum terms for specified dollar amounts:

<u>Contract Price of Transaction</u>	<u>Maximum Payment Term</u>
less than \$80,000	two years
\$ 80,000 - less than \$175,000	three years
\$175,000 - less than \$350,000	four years
\$350,000 or more	five years

Sales to dealers or others for resale are limited to maximum credit terms of two years.

PREMIUM RATES AND PAYMENT

Under single shipment policies, a policy and transaction endorsement are issued when the appropriate premium is received.

Repetitive and single sale multiple shipment policies require premium payment by the 15th day of the month immediately following each insured shipment or funding for financial institutions. Premium is calculated on the financed portion of the medium-term shipments made during the period.

Applicants may obtain a non-binding rate indication by referring to the Exposure Fee Calculator at Ex-Im Bank's Internet Homepage or by contacting the Business Development Division with specifics of the contemplated transaction. Changing conditions may result in a different rate being finally offered than is initially indicated. However, premiums specified by Ex-Im Bank in writing are firm.

INTEREST COVERAGE

The interest rate insured on medium-term transactions is 100 percent of the rate provided in the note. To be covered, post-maturity interest must be stipulated by the insured in the promissory note. Post maturity interest is covered at the original note rate. Coverage of interest charges may extend to the date of claim payment, or 270 days, whichever is earlier.

OVERDUES AND CLAIMS

Insurers must report all buyers which fall into default on a monthly basis after they reach 60 days past due, form EIB92-28. In all cases, these monthly reports of overdues situations should continue for as long as the overdues exists, or until a claim is submitted.

When claims are submitted, copies of all documents pertaining to the transactions, such as invoices, bills of lading, promissory notes and guarantees, must be forwarded in conjunction with the proof of loss form, EIB92-26, for review.

For commercial default claims, there is a 180-day waiting period after the date of default before a claim can be filed. For claims resulting from the insolvency of the buyer or for one of the political risks defined in the policy, there generally is no waiting period for filing a claim. The latest date for filing any type of claim is 240 days after the date of default

INFORMATION REQUIRED FROM APPLICANTS

Applicant information. A completed application, form EIB92-48, is required. If the applicant is other than the exporter or supplier, such as a financial institution, then information on the exporter and supplier is required.

Buyer information - The applicant must also provide information about the buyer and guarantor, if any. In general, the following guidelines apply:

- a credit report from an agency, dated not more than 6 months from the application date;
- a commercial bank checking, dated not more than 6 months from the application date; and
- three years of financial statements and an interim statement if the latest fiscal year end statement is dated more than 9 months from the application date.

Audited financial statements are preferred and generally will be required when Ex-Im Bank's total potential exposure exceeds \$1 million. If unaudited statements are provided, they must be signed and accompanied by a summary of significant accounting practices used in their preparation.

Ex-Im Bank has published its Medium Term Credit Standards, EBD-M-39, for Buyers which may be consulted to determine the information necessary and the likelihood of approval.

MORE INFORMATION

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